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China CITIC Bank
London Branch

Operational Risk Management Policy

中信银行
CHINA CITIC BANK
伦敦分行
LONDON BRANCH

Document History

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1.0	President	President	May 2018	PRA Regulatory Business Plan
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3.1	CRO	ARCo	Aug 2021	• Update CNCBLB links to BASEL principles (7➔10)

CONTENTS

1 Introduction

Operational risk may arise from various internal and external factors relating to people, process and systems.

This policy document sets out China CITIC Bank London Branch's ("CNCBLB's" and / or "the Branch's") overarching approach to Operational Risk Management.

2 Objectives

The purpose of this policy is to set out China CITIC Bank London Branch's ("CNCBLB" or the "Branch") approach to Operational Risk Management ("ORM").

Operational risk is identified as a separate and distinct category of risk similar to credit and market risk. The management of operational risk as a distinct risk category along with credit and market risks is a manifestation of the vital role played by operational risks in impacting the Branch's risk profile. Management of operational risk includes its identification, assessment, control / mitigation, monitoring and reporting.

This operational risk management framework forms part of CNCBLB's overall risk management framework. The high-level objectives of CNCBLB's ORM Policy are:

- To capture the operational risk management framework in place at CNCBLB and is designed to be commensurate with the scale, risk profile and risk appetite of the Branch;
- Support a risk culture and environment for the effective management of operational risk within CNCBLB;
- Set out the governance structure and roles for each of the three lines of defence in relation to operational risk management; and
- Support the embedding of the ORM into the day to day business of CNCBLB.

3 Document Ownership

The 'ownership chain' for this policy document is outlined below:

Document Owner	The Chief Risk Officer ("CRO") is responsible for the maintenance of this document and ensuring that it is reviewed annually, or more frequently as required.
Challenge	The Audit and Risk Committee ("ARCo") will review this document annually or more frequently as necessary. The ARCo will provide its recommendation to the Management Committee ("ManCo") for consideration or otherwise.
Approval	ARCo will approve the document, ManCo will provide the final review and challenge the ORM Policy before ratifying it (or otherwise).
Applicability	All members of staff, whether permanent (local hires and expatriate alike) or contractors must adhere with the provisions of this document and all policies associated therewith. Escalation of any matters arising in respect of this should be via the individual's Head of Department or directly to the CRO.

4 Overview of Operational Risk Management

4.1 Definition of Operational Risk

Operational Risk is defined as the risk of an economic loss, a disruption to business, an adverse impact on reputation or on client relationships or of legal action arising from inadequate or failed internal processes, people and systems. The definition is “causal-based”, providing a breakdown of operational risk into four categories based on its sources:

- People;
- Processes;
- Systems; and/or
- External factors

4.2 Regulatory Expectations

Operational risk covers mainly non-financial risks, this is normally defined as all risk outside of credit, liquidity and market risks. As for credit and market risk, operational risk does require a bank to hold capital against potential loss and the capital charge calculations are well defined in the regulations.

4.2.1 Basel & Prudential Regulations

Prudential regulations that cover operational risk establishes that operational risk is inherent in all banking products, activities, processes and systems, and the effective management of operational risk has always been a fundamental element of a bank’s risk management programme. As a result, sound operational risk management is a reflection of the effectiveness of the board and/or senior management in administering its portfolio of products, activities, processes, and systems. The BASEL Committee, through the publication of the paper ‘Principles for the Sound Management of Operational Risk’; promotes and enhances the effectiveness of operational risk management throughout the banking system.

There are 11 principles set out for operational risk management:

Description	Summary	CNCBLB implementation
Fundamental principles of operational risk management	The board of directors should take the lead in establishing a strong risk management culture. The board of directors and senior management should establish a corporate culture	• The Management Committee (“ManCo”) is responsible for the strong corporate and risk culture instilled in the Branch • Operational Risk has been

	that is guided by strong risk management and that supports and provides appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the board of directors to ensure that a strong operational risk management culture exists throughout the whole organisation	identified and high level risk management documented in the Risk Appetite Statement ("RAS") • The CRO has provided risk management training, including operational risk training to all staff. This is re-enforced with induction training and workshops for RCSA's.
Fundamental principles of operational risk management	Banks should develop, implement and maintain a Framework that is fully integrated into the bank's overall risk management processes. The Framework for operational risk management chosen by an individual bank will depend on a range of factors, including its nature, size, complexity and risk profile.	• Operational Risk is fully integrated in the overall Risk Management Framework approved by the Audit and Risk Committee ("ARCo"). • The Operational risk management framework was designed for the new Branch and is adequate for the low volume and less complex business services provided by CNCBLB.
Governance	The board of directors should establish, approve and periodically review the Framework. The board of directors should oversee senior management to ensure that the policies, processes and systems are implemented effectively at all decision levels.	• The Risk Management Framework requires ARCo to oversee all Operational Risk policies around People, Processes, Systems and External Events. A detailed presentation is provided to ARCo members.
Governance	The board of directors should approve and review a risk appetite and tolerance statement for operational risk that articulates the nature, types, and levels of operational risk that the bank is willing to assume.	• ManCo approves the business strategy of the Branch which includes articulating the acceptable operational risk levels the Branch is willing to take in the RAS. • The level of risk is reviewed and approved by ARCo in the RAS.

Senior Management	Senior management should develop for approval by the board of directors a clear, effective and robust governance structure with well defined, transparent and consistent lines of responsibility. Senior management is responsible for consistently implementing and maintaining throughout the organisation policies, processes and systems for managing operational risk in all of the bank's material products, activities, processes and systems consistent with the risk appetite and tolerance.	• Operational Risk is fully integrated in the overall Risk Management Framework • Senior management provide a detailed Operational Risk Management Policy to the ARCo members for approval, this policy covers the Branches operational risk across all material products, activities, processes and systems.
Identification and Assessment	Senior management should ensure the identification and assessment of the operational risk inherent in all material products, activities, processes and systems to make sure the inherent risks and incentives are well understood.	• Operational Risk Management Policy covers the identification and inherent risk assessment of operational risk across all material products, activities, processes and systems. • The Risk & Control Self-Assessments ("RCSA") focus on identification of risks for all departments and is linked to the overall Risk Matrix of the Branch.
Identification and Assessment	Senior management should ensure that there is an approval process for all new products, activities, processes and systems that fully assesses operational risk	• New Product Approval Policy covers the approval process for all new products and activities. • New product approval includes all departmental processes and systems. • New system approvals would be assessed and approved under the Outsourcing policy
Monitoring and Reporting	Senior management should implement a process to regularly monitor operational risk profiles and	• High level Operational Risk profiles and material exposures is presented at the monthly

	material exposures to losses. Appropriate reporting mechanisms should be in place at the board, senior management, and business line levels that support proactive management of operational risk.	MANCo meeting. • A detailed assessment of Operational Risk profiles and material exposures is presented at the quarterly ARCo meeting. • A detailed quarterly report is sent to Head Office Operational Risk
Control and Mitigation	Banks should have a strong control environment that utilises policies, processes and systems; appropriate internal controls; and appropriate risk mitigation and/or transfer strategies.	• High level of controls are in place through policies and procedures covering all main activities. • Operational risk monitors control failures, rectification and prevention through event/near miss reports. • This is reported monthly to MANCo and quarterly to ARCo.
Business Resiliency and Continuity	Banks should have business resiliency and continuity plans in place to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption.	• Appropriate business resilience and continuity plans are in place with: o Pandemic BCP active, VPN all staff working from home o BCP approved by ARCO o Departmental BCP are in place o Business impact analysis completed o Local DR site, with annual tests o HO DR plan, 2 city approach
Role of Disclosure	A bank's public disclosures should allow stakeholders to assess its approach to operational risk management.	• Monthly MANCo reports sent to HO International Business department • Detailed operational risk report presented quarterly to ARCo • Detailed quarterly Ops Risk report sent to HO Risk Department

4.2.2 UK Regulators Operational Resilience

The UK regulators (Bank of England/PRA and Financial Conduct Authority) have being consulting with the banking sector over the last view years.

The UK regulators have now published the following papers covering the subject:

- PRA - PS6/21: 'Operational resilience: Impact tolerances for important business services';
- FCA - PS21/3: 'Building operational resilience'; and
- Bank - Bank of England policy on Operational Resilience of FMIs.
- PRA – PS7/21 and SS2/21: 'Outsourcing and third party risk management';

The above guidance from the UK regulators are relatively recent documents and may not apply directly to third country branches but CNCB LB is in the process of reviewing and will implement the guidance as appropriate to the branches activities and risk framework.

4.2.3 Systems & Controls (FCA SYSC 13)

SYSC 13 provides *guidance* on how to interpret *SYSC 3.1.1 R* and *SYSC 3.2.6 R*, which deal with the establishment and maintenance of systems and controls, in relation to the management of operational risk. Operational risk has been described by the Basel Committee on Banking Supervision as "the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events". Regarding operational risk, matters of which the FCA would expect notice under Principle 11 include:

1. any significant operational exposures that a firm has identified;
2. the firm's invocation of a business continuity plan; and
3. any other significant change to a firm's organisation, infrastructure or business operating environment.

This chapter in the FCA handbook covers systems and controls for managing risks concerning:

13.6 People	A *firm* should establish and maintain appropriate systems and controls for the management of operational risks that can arise from *employees*.
13.7 Processes and systems	A *firm* should establish and maintain appropriate systems and controls for managing operational risks that can arise from inadequacies or failures in its processes and systems (and, as appropriate, the systems and processes of third party suppliers, agents and others)
13.8 External events and other changes	The exposure of a *firm* to operational risk may increase during times of significant change to its organisation, infrastructure and business operating environment (for example, following a corporate restructure or changes in regulatory requirements). Before, during, and after expected changes, a *firm* should assess and monitor their effect on its risk profile
13.10 Insurance	Whilst a *firm* may take out insurance with the aim of reducing the monetary impact of operational risk events, non-monetary impacts may remain (including impact on the *firm's* reputation). A *firm* should not assume that insurance alone can replace robust systems and controls.

4.3 Sources of Operational Risk

CNCBLB recognises that operational risk could arise in a number of different from the underlying business activities. The categories defined by this policy are based on the BASEL operational risk categories which are summarised as follows:

OPERATIONAL RISK	BASEL EVENT TYPE	BASEL EVENT TYPE	BASEL EVENT TYPE
	LEVEL 1	LEVEL 2	LEVEL 3
PEOPLE RISK	**Internal Fraud**	. Unauthorised activity . Theft / fraud	. Transcat not reported . Transaction not approved . mismarking poistion . Extortion / embezzlement . Misappropriation / forgery . Malicious damage . impersonation/insider trading . Bribes /kick-backs
	External fraud	. Theft / fraud . System security	. Theft / robbery / forgery . Hacking damage . Theft of information
	Employment Practices and Workplace Safety	. Employee relations . Diversity / Discrimination	. Comensation / benefits . Organised lobour activity . All discrimination types
PROCESSESS RISK		. Safe Environment	. General liability (slips, falls…) . Health & Safety rules . Workers compensation
	Clients, Products & Business Practices	. Suitability, disclosure, fiduciary . Selection, sponsorship, exposure	. Fiduciary / expousre breach .Disclosure issues(KYC, Privacy) . Aggressive sales /Liability
		Improper business/ market practice	. Improper transactions . Market manipulation . Insider trading (firm) . Unlicensed activity . Product defects
	Execution, Delivery & Process Management	. Transaction capture / execution . Monitoring & reporting . Customer onboard / management . Vendor /suppliers	. Miscommunication /errors . Poor performance / failures . Data management / records . Failed mandatory reporting . Outsourcing / disputes
	Business disruption and system failures	Systems	. Hardware / software . Telecommunications
SYSTEMS RISK		Security	. Cyber attacks /malware . Virus protection
EXTERNAL RISK	**Damage to Physical Assets**	Disasters and other events	. Human (vandalism/terrorism) . Pandemics . Natural (weather/water…)

4.4 Operational Risk Appetite

CNCBLB has a very low tolerance for operational risk and strives to reduce operational risk, whenever it is cost beneficial or required by law and regulation, to a level which is acceptable. The Branch's operational risk appetite is outlined in its Risk Appetite Statement ("RAS") and presented in **Appendix A**, which is reviewed at least annually.

5 Operational Risk Governance, Roles and Responsibilities

This section sets out the roles and responsibilities of different committees and business areas in the context of Operational Risk Governance.

5.1 Role of ManCo

ManCo is responsible for:

- Setting the operational risk appetite as part of the overall risk appetite statement;
- Reviewing the recommendations of the ARCo and ratifying the operational risk management arrangements; and
- Reviewing reports of operational risk incidents, near misses and Key Risk Indicator ("KRI") threshold breaches
- Deliberating on training requirements, including in relation to operational risk.

5.2 Role of ARCo

ARCo is responsible for:

- Reviewing the risk appetite statement annually and suggesting any changes to the ManCo for challenge and approval;
- Approving the Risk Matrix which contains the complete list of risks and their mitigants.
- Reviewing and challenging the adequacy of the operational risk management arrangements;
- Reviewing reports of operational risk incidents, near misses and Key Risk Indicator ("KRI") threshold breaches and escalating specific matters to ManCo or HO Risk Committee if necessary; and
- Reviewing the suite of operational risk KRIs and calibration of KRIs at least bi-annually or as necessary.

5.3 Role of the First Line

In particular, the first line functions are responsible for the following (non-exhaustive list):

- Ensuring implementation of CNCBLB's operational risk management framework and corresponding policies and procedures;
- Identifying operational risks and liaising with the Risk Department to capture them in the Risk & Control Self-Assessments;

- Developing and reporting breach of KRI trigger thresholds to the ManCo and recommending mitigation action;
- Reporting operational risk incidents and near misses to the Risk Department;
- Implementation of corrective and preventative action plans as per agreed timelines;
- Participation in training programs;
- Implementation of Operational Risk controls including the preparation of procedural documentation to support implementation of relevant policies; and
- Putting in place the required insurance to support CNCBLB's operations.

5.4 Role of the Second Line

The Risk Department performs CNCBLB's second line of defence in relation to operational risk. Its responsibilities include but are not limited to the following areas:

- Designing the ORM framework;
- Drafting policies and defining policy standards to be adhered to by the first line;
- Maintaining, monitoring and reporting the incident /near miss events, overall risk matrix/ and root cause analysis;
- Maintaining, monitoring and reporting the departmental risk & control self-assessments;
- Oversight of operational risk management arrangements by the first line;
- Reviewing and challenging the operational risk management tools and controls used by the first line;
- Defining and monitoring the KRIs against trigger thresholds;
- Providing KRI MI on a monthly basis to the Manco;
- Co-ordinating with the HO ORM Department for implementation of ORM framework at Bank wide level;
- Promoting a strong operational risk culture within CNCBLB and ensuring employees are aware of their responsibilities;
- Developing and delivering training; and
- Advising on the operational risk implications of future business plans and new products.

5.5 Role of the Third Line

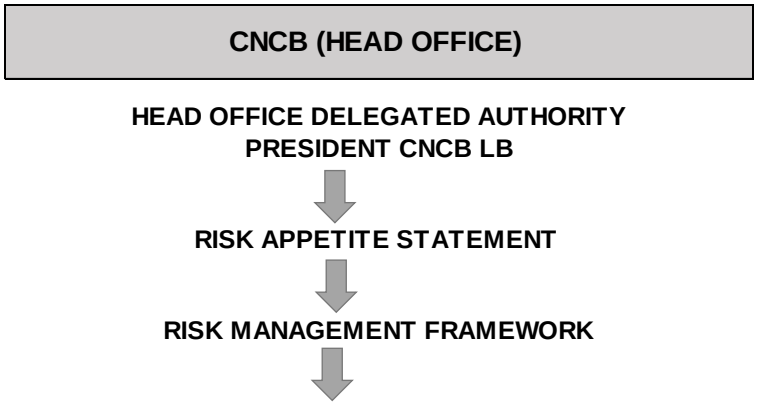
The role of the third line of defence is to provide assurance on the effectiveness of the ORM policy and its implementation as applicable to the first and second lines of defence. The third line will be provided by an external third-party Service Provider on an outsourced basis. Operational Risk Management is one of the specified areas that will be covered in the Internal Audit Plan.

The Internal Auditors will report to the President of CNCBLB.

6 Operational Risk Management Framework

6.1 Risk Management Framework

Operational Risk management forms and integral part of the overall risk framework, which is presented as follows:



RISK	PRIMARY RISK MANAGEMENT FRAMEWORK
CREDIT RISK	Credit Approval and Credit Risk Management Policy
MARKET RISK	Market Risk Management Policy
OPERATIONAL RISK	Operational Risk Management Policy
	Outsourcing Policy
	Business Continuity Management Framework
	New Products Approval Policy
	Conduct Risk Policy Framework
LIQUIDITY RISK	Liquidity Risk Management Policy

Risk department will manage operational risk that includes the policies identified above and using the following tools to identify, measure, manage and report operational risk:

- Ops Risk Event Log (See **Appendix B**)
- Risk & Control Self-Assessments (See **Appendix C**)
- Key Risk Indicators (See **Appendix D**)

The Branch is committed to identifying, assessing, monitoring, controlling, mitigating, and reporting operational risk through an operational risk management framework.

Each stage is discussed below.

6.2 Operational Risk Identification

Operational risk is inherent in all the Branch's activities and operations shall be identified on a pro-active basis including risks in outsourcing and on introduction of new products, systems, processes and any material changes therein.

Operational risk identification is the responsibility of First Line functions (the business and supporting functions). Operational risks will be identified through event reporting to Risk department through the 'Incident/Near miss' process that will be captured in the CNCBLB Risk Matrix, which captures the full universe of risks arising from the business conducted by CNCBLB.

Each year the Risk Matrix is updated through a bottom-up approach whereby individual departments 'Risk & Control Self-Assessments whereby the Business heads review/update risks relevant to their business areas. Given that operational risks can arise anywhere within the business, all department heads should review/update operational risks as part of their annual review.

Department heads will work with Risk department to ensure a thorough review of existing and emerging risks and will not assume that certain operational risks will be covered by other department heads.

The Chief Risk Officer will also be responsible for identifying existing and emerging operational risks through this bottom-up approach and will have a view of operational risks identified / reviewed / updated by all department heads to ensure no operational risks are omitted from the Risk Matrix.

6.3 Operational Risk Assessment

Each Operational risk identified will assessed using the template in Appendix B which will include:

- Causal area
- Impacted area
- Root cause
- Loss (actual or potential)
- Corrective action
- Preventative action

In addition to identifying the operational risks it is subject to, CNCBLB periodically assesses its vulnerability to these risks.

Operational risks are assessed in accordance with CNCBLB's Risk Scoring Methodology (See **Appendix E**) which assigns an overall risk rating for each operational risk identified based on the impact and probability. The assessment is considered both before ('gross') and after mitigating controls ('net') have been implemented and the results contained within the Risk Matrix.

6.4 Operational Risk Control and Mitigation

CNCBLB periodically reviews risk control and mitigation strategies to ensure these remain effective and relevant, in light of its overall risk appetite and profile.

For all material operational risks that have been identified and rated as Medium or High, CNCBLB shall decide whether to use appropriate procedures to control and / or mitigate the risks or bear the risks. For those risks that cannot be controlled, CNCBLB shall decide whether to accept these risks, reduce the level of business activity involved, or withdraw from this activity completely.

The decision to adopt an appropriate risk treatment is based on balancing cost and risk while always ensuring regulatory compliance. This decision is made by ManCo based on recommendation from the ARCo through the periodic risk assessment as captured in the Risk Matrix.

6.5 Operational Risk Analysis and Monitoring

Analysis and continuous monitoring of operational risk is vital for the effective management of operational risk.

Monitoring of operational risk exposures is necessary to protect the Branch and implement appropriate mitigation. To this end, CNCBLB will developed a Key Risk Indicators to monitor the level of operational risk CNCBLB is exposed to in various areas (See Appendix D).

The Risk Department will be responsible for the monitoring of these KRIs and providing MI to the ManCo on a monthly basis. The suite of KRIs and calibration of KRIs will be reviewed at least bi-annually or as necessary by the ARCo.

In addition, CNCBLB shall also monitor and analyse internal and external developments which affect CNCBLB's operational risk profile such as business strategy, introduction of new products, process, systems or decisions with regards to key outsourcing, changes in the regulatory, business, economic, political and social environment.

6.6 Operational Risk Reporting

6.6.1 CNCB London Branch

The Risk Department will provide monthly MI to the ManCo on operational risk covering:

- Operational Losses (Basel categories, causal area, impact area, trend analysis)
- Operational Events (High, Medium, Low & causal/impacted areas)
- Key Risk Indicators (Status/trend)
- Key Risk Indicator breaches (explanation) Controls and Mitigation

For all material operational risks that have been identified, CNCBLB Operational risk Department shall recommend the appropriate risk treatment such as acceptance, reduction, avoidance or transfer. As this is for material risks, the CRO will present the recommendation to ManCo for consideration and final approval. An appropriate risk treatment depends upon various factors such as:

- Nature of the risk;
- Risk appetite;
- Business strategy;
- Available risk measures;
- Cost / Benefit; and
- Regulatory requirements.

6.6.2 CNCB Head office

The Risk Department will provide Quarterly MI to the HO Operational risk department covering:

- Overview of Ops risk management (General update on departments activities/high level summary of Ops risk management information)
- Major risks
- Key Risk Indicators (Status/trend)
- Ops risk loss events
- Major IT production events
- IT risk and business continuity training
- Business continuity management
- Outsourcing risk management
- Nest stage of operational risk

6.7 Systems and controls

CNCBLB has a robust set of systems and controls in place to mitigate operational risk. Internal controls are embedded in a bank's day-to-day business at all levels.

CNCBLB's systems and controls that mitigate operational risk include:

- The CRO has the ultimate responsibility for putting in place effective systems and controls for mitigating operational risk;
- Appropriate segregation of duties such that personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest are to be identified, minimized, and subjected to careful independent monitoring and review;
- The Organogram is updated regularly with clear reporting lines;
- Job descriptions are provided to all staff members;
- Performance appraisal process that evaluate each role against the job descriptions;
- Periodic investment in IT infrastructure including various hardware/software tools that support the operations;
- Four eyes principles in operations;
- Clearly established authorities and/or processes for approval;
- Close monitoring of adherence to assigned risk thresholds or limits;
- Safeguards for access to, and use of, CNCBLB assets and records;
- Ongoing processes to identify business lines or products where returns appear to be out of line with reasonable expectations;
- Regular verification and reconciliation of transactions and accounts;
- A robust technology infrastructure is in place that meets current and long-term business requirements by providing sufficient capacity for normal activity levels as well as peaks during periods of market stress; ensuring data and system integrity, security, and availability; and supporting integrated and comprehensive risk management;
- Effective channels of communication to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel;
- Adequate training to all the staff members; and
- Adequate MI for the management for decision making.

6.8 Policies and procedures

CNCBLB's operational risk framework is comprised of a range of policies and procedures to mitigate operational risk. Policies that impact Operational risk directly are summarised below:

Policy/Procedure Title		Policy Owner
Risk Appetite Statement	Defines the Branches business activities, target market and risk appetite	Chief Risk Officer
Governance & Risk Management Framework	Sets out the regulatory environment, overarching risk framework and committee structures	Chief Risk Officer
Risk Matrix	Consolidates all the identified risks within the Branch which are assessed for inherent and residual risks.	Chief Risk Officer
Outsourcing Policy	Defines governance and controls for third party service providers	Chief Risk Officer
Business Continuity Management Framework	Defines the framework and scenarios for disaster recovery solutions of the Branch	Chief Risk Officer
New Products Policy	Defines the process in which new products and changes to existing products can be approved	Chief Risk Officer
Conduct Risk Policy	Defines the framework to monitor conduct risk across all our businesses.	Chief Risk Officer & Chief Compliance Officer

6.9 Training

To support this and ensure that staffs are equipped with the necessary knowledge to undertake their roles effectively staffs will be required to undertake periodic training as well as complete an induction programme upon joining the Branch. The Operational risk training covers a minimum of:

- Overview of Operational Risk (Basel risk categories and principles of sound management of operational risk)
- Operational risk drivers (Top 10 risks, risk matrix, risk framework and risk appetite)
- Operational event reporting (Ops Risk Event Log and root cause analysis)
- Risk & Control Self-Assessments (risk identification and assessment)
- Key Risk Indicators (strategic, tactical and dynamic KRI's)
- New Product Policy (Business case, assessment and sign-off)
- Outsourcing Risk (Regulatory requirements, process and assessment)
- Business Continuity Framework (HO recovery and London Branch)
- Conduct Risk (High level overview, Policies, conduct rules and CNCB culture)

CNCBLB maintains a record of all training completed (title of training and date completed) and where applicable, certification that such training has been received and absorbed by current staff members together with an archive which contains the training records of all leavers (regardless of the reason for leaving) for a minimum period of five years post departure.

6.10 Compliance monitoring program

CNCBLB operates a compliance monitoring program to ensure it remains compliant with applicable regulations at all times. This reduces the likelihood of CNCBLB incurring loss through legal or regulatory breaches.

6.11 Insurance

Insurance policies, particularly those with prompt and certain pay-out features, can be used to mitigate the risk of "low frequency, high severity" losses which may occur as a result of events such as third-party claims resulting from errors and omissions, physical loss of securities, employee or third-party fraud, and natural disasters.

Before taking out insurance against the risk must first have been determined as suitably specific and with definable as well as predicable features allowing adequate cover to be agreed with an insurer. This assessment will be made by the ARCo with ManCo, based on the CRO's recommendation to seek insurance cover as a risk mitigant.

For the cost of insurance to be deemed acceptable, the cost must be at a comparable level to the benefits to be obtained in case the risk covered materialises. A decision to retain either all or a residual risk position may be deemed appropriate where cost benefit-analysis shows there to be an adequate economic return/limited probability of risk crystallisation to make up for this.

7 Review and Update of Policy

The Operational Risk Policy shall be reviewed by the Risk at least annually or as directed by the ManCo, to reflect changes in the profile of risks or business activities, organisational or authority structures or new regulations relevant to CNCB LB management of market risk.

8 Appendix A – Risk Appetite

The Risk Appetite with respect to operational risk is as follows:

CNCBLB is a start-up operation and therefore has no historical data and may be subjected to higher people, processes and system risks in the initial stage of its strategic development. In order to quantify an acceptable risk appetite for operational risk exposure, a dynamic methodology will be monitored by risk department to manage the higher risk in the initial stages; this risk will reduce as the people, process and systems are strengthen over time, the following table refers:

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Income	$3,100,000	$5,600,000	$11,100,000	$17,300,000	$23,600,000
Tolerance Risk Appetite (bps)	1.25	0.85	0.50	0.25	0.25
Ops Risk Appetite	**$38,750**	**$47,600**	**$55,500**	**$43,250**	**$59,000**

9 Appendix B – Ops Risk Event Log template & Log

The Ops Risk Event Log will be maintained by Risk Department. The log will cover the following:

Event	Risk Assessment
• Event number • Date of event • Date reported to Risk Department • Causal area • Impacted area • Event summary • Actual loss • Potential loss • Root Cause	• Risk Rating (High, Medium, Low) • Primary cause (People, Process, System) • Cause category (Basel category) • Remedial action (corrective action) • Preventative Action (control enhancement) • Event assigned to…. • Event status (open, work-in-progress, action plan agreed, closed) • Closure date

Risk Event Data Collection

CNCBLB shall establish a framework for identifying and recording risk events which shall include:

a) Operational risk events causing financial loss
b) Operational risk events having an indirect impact, such as:
    i. Reputation risk events
    ii. Regulatory breach
    iii. Health and safety incidents
    iv. Business disruption incidents

The business owners/first line of defence departments are responsible for reporting any operational risk events. Risk Department shall track risk events on an on-going basis to monitor changes in the level of threat to the business and to assist in considering the quality, design and implementation of its controls.

At the occurrence of a risk event, Risk Department shall ensure that all relevant loss data (if any) is collected and shall consider the collection of the following information associated with the loss event:

a) Initial risk event information: event information to capture a preliminary recording of the risk event such as the date of occurrence, the function in which it was discovered, the status and brief incident description, etc.
b) Reason (for occurrence): List of the cause(s) of the risk event.

c) Loss Amount (if any): Detail the cause of the loss as well as the financial impact of the loss, including a breakdown of the financial impact if available.
d) Classification (of risk event): Detailed classification of the loss as per both internal requirements specified by CNCBLB and as per Basel II requirement for regulatory calculation and reporting purposes.
e) Remedy: Provide information on the remedial action taken to resolve the issues, including resolution date, responsibility for remediation, effect on control and changes to operational procedures.
f) Recovery Information: Record information relating to the recovery of any financial losses, including the recovery type, the amount recovered, date of recovery, or if no recovery was actuated, the recovery plan proposed.

Risk Department may require additional information regarding losses and may request a detailed root cause analysis to determine preventative actions and that appropriate controls are in place to avoid event/s reoccurring.

Risk Department shall maintain a loss collection database that will capture all internal operational risk events for the analysis of potential trends that could lead to higher operational risk exposure within CNCBLB and respective mitigation plans shall be established.

Risk Event Data Analysis

Internal risk events shall be analysed by Risk Department on a periodic basis in order to identify emerging risk, control weaknesses and potentially develop risk mitigation plans. Risk Department shall make use of the data from external loss events for the purpose of periodic analysis leading to the development of mitigation plans ensuring that the external loss data corresponds and aligns well with the nature, size and lines of business in which CNCBLB operates.

Scenario Analysis

Scenario Analysis shall be used by the ManCo to identify low probability but high-impact scenarios which may result in the inability of the Group to continue operating normally.

10 Appendix C – Risk & Control Self-Assessments ("RCSA")

CNCBLB shall adopt a RCSA methodology that will support the identification of risks and establish the assessment criteria for the likelihood and impact assessment of risks and the effectiveness of the respective controls.

The following inputs and information shall be considered in order to identify risks during the RCSA process:

a) Representatives from across the full scope of the business and support function's activities;
b) Business function plan defining the objectives of the function/ process/ product;
c) Business process mapping showing key controls and highlighting recent proposed changes;
d) Key Risk Indicators;
e) Risk events databases and analysis covering both internal and external events;
f) Relevant media comments e.g. on past incidents from competitors;
g) Internal or external audit comments and recommendations; and
h) Regulator comments and recommendations.

The RCSA process shall be conducted as an interactive and cooperative effort by the function being reviewed in collaboration with the Risk Department. The frequency for conducting RCSA across the Bank shall be determined by ManCo which shall consider, among other factors, on the:

- Complexity of the process;
- Criticality of the process;
- Risk Reviews;
- Risk assessment rating assigned to the process from previous RCSA exercises; and
- Internal audit findings.

11 Appendix D – Key Risk Indicators ("KRI")

KRI Identification

CNCBLB shall adopt a methodology to establish KRIs to monitor changes in the operational risk profile, based on the strategic objectives and RCSA results.

The established KRI's shall be reviewed periodically by ARCo, at least annually, for their relevance to the Branch due to change in people, process, technology and introduction of new products.

KRI Thresholds

The business and support functions in collaboration with Risk Department shall define thresholds for identified KRI, so as to regularly assess the status of the operational risk exposure. The thresholds shall be determined taking into consideration the following criteria:

a. Risk appetite of CNCBLB as set out by the ManCo;
b. Estimation by management that shall be validated through testing over time;
c. Observed historical data (if data is available) including loss data; and
d. Benchmarking against peer banks (if data is available).

Each business and support function in CNCBLB along with Risk department shall be responsible for determining thresholds for the identified KRIs which shall be approved by ManCo.

KRI Tracking and Reporting

The risk owner shall be responsible for tracking their respective KRIs and significant breaches shall be notified to the CRO as and when they occur. The frequency of reporting KRIs shall be determined by ManCo based on the nature and type of KRI.

KRI Analysis

Risk Department shall conduct analysis of the reported KRIs in order to identify any potential trends that could lead to higher operational risk exposure within CNCBLB and appropriate mitigation plans shall be determined with the risk owners and presented to ManCo for approval.

12 Appendix E – Risk Scoring Methodology (Risk Matrix)

The 'Risk Matrix' is an internal document which is maintained by Risk Department.

This document is a consolidated view of all the identified risks within CNCBLB and is held in the secure drive n:/Risk Management/Operational Risk/Risk Matrix.

Risk Identification

Risk identification is a core component of the overarching RMF. The main features of the planned identification activities are outlined below.

The Risk Matrix

The Branch will maintain a Risk Matrix that captures all risks arising from an activity of the Branch.

With reference to the Branch's business plan, and with input from the departments and support functions, including the 2LOD functions, the CRO will conduct a full assessment of the Branch's Risk Matrix on an annual basis to ascertain its completeness. An assessment of the Risk Matrix will also be conducted whenever there is a significant change to the business, including the introduction of new businesses or new products which introduce new risks. This review is presented to the ARCo for its assessment and approval and then to the ManCo for their final approval.

The Risk Matrix includes details of the nature of the risk, the source of the risk within each business line, the owner of the risk in the 1LOD, the controls in the Risk Management Framework by which the risk is mitigated or controlled, the function in the 2LOD responsible for the relevant framework within which the risk is controlled, the committee responsible for oversight of the framework and reference to any relevant policies.

The Risk Matrix also includes an assessment of each risk in accordance with the Risk Scoring Methodology (captured in the RMF). When assessing risk, the Branch considers both the inherent (the nature of risk before any mitigants are applied) and the residual risk (the nature of the risk once respective mitigants have been applied), to ensure risks faced are within the Branch's risk appetite.

This assessment of both likelihood and impact of each risk is based on the judgement of the CRO with input from all department heads including the CCO. Any changes to the risk matrix will be reviewed and approved at least annually by the ARCo. This assessment may be informed by input from the business or support functions in which the risk arises and from historical experience.

Risk Scoring Methodology

The scoring methodology assesses:

- The likelihood of a loss event due to the risk (or control weakness); and
- The resulting impact were the event to occur.
- An overall risk score (Low, Medium or High) will be assigned to each risk by reference to the individual likelihood and impact scores.

Key risks are considered to be those inherent risk with a High overall risk score pre-mitigation that means:

- Any inherent risk with High Impact;
- Any inherent risk with a High impact and a Medium or High probability of occurring; and
- Any inherent risk with a Medium impact but a High probability of occurring.

Risk Scoring Methodology

Probability **Impact**	**Low** Event unlikely to occur in the foreseeable future: less than once in 3 years.	**Medium** Event is possible: could occur once in every 1-3 years.	**High** Event is likely to occur at least once in the next 12 months
High **Financial:** >= £500k potential or actual net profit forgone/cost incurred **Reputational:** Major damage to the Branch/Bank reputation, market value **Regulatory:** Could result in major disciplinary action by the regulator **Policies and procedures:** Non-compliance with Head Office or ManCo Approved Policies. **Business disruption:** Could result in severe business disruption **Management reporting:** Reporting to Senior Management and the President has serious deficiencies	**Medium**	**High**	**High**
Medium **Financial:** <£500k but >= £150k potential/actual net profit forgone/cost incurred **Reputational:** Significant damage to the Branch/Bank reputation, market value	**Low**	**Medium**	**High**

Regulatory: Could result in investigation/minor disciplinary regulatory action **Policies and procedures:** Non-compliance with Business Unit policies and standards **Business disruption:** Could result in serious business disruptions **Management reporting:** Reporting to Senior Management or the President has some deficiencies			
Low **Financial:** < £149k potential/actual net profit forgone/cost incurred **Reputational:** Limited damage to the Branch/Bank reputation, market value **Regulatory:** Could result in investigation/adverse comment by the regulator **Policies and procedures:** Non-compliance with Branch policies and standards **Business disruption:** Could result in some business disruption **Management reporting:** Reporting to Senior Management or the President has minor deficiencies	**Low**	**Low**	**Medium**

Probability

The probability refers to the probability of specific risk events occur without the Branch taking any actions under the current level of assets, business environment, market competition or market conditions. The Branch has classified the probability of risk into three categories. A table illustrating this can be found below:

Probability Risk Scoring Criteria

Criteria	Probability
Unlikely: Event is unlikely to occur in the foreseeable future (less than once every 3 years).	Low
Possible: Event could possibly occur (once in every 1-3 years).	Medium
Likely: Event is likely to occur (at least once in the next 12 months).	High

Severity

The severity of risk specifically refers to risk events that have occurred, resulting in either a direct or an indirect loss for the Branch. When classifying the severity of risk, the Branch first assesses whether the risk has a financial or a non-financial impact. Definitions of these terms can be found in the table below.

Definitions of Impact

Impact type	Definition
Financial impact	Financial impact assesses once the risk events occurs whether will lead to major financial impact or loss.
Non-financial impact	Non-financial impact assesses once the risk events occur, the impact on Branch's reputation, external institution's (regulator, rating agency) reaction as well as the impact on other business departments.

Once it has been established whether the risk event that has occurred has had either a financial or a non-financial implication for the Branch, the severity of the risk will then be considered. In order to measure this the Branch will use specific criteria which is mapped against the Bank's profit from the previous year. The table below outlines the severity levels used by the Branch and their subsequent criteria.

Severity Level Criteria

Severity	Criteria
High	**Financial:** >= £500k potential or actual net profit forgone/cost incurred **Reputational:** Major damage to the Branch/Bank reputation and/or market value **Regulatory:** Could result in major disciplinary action by the regulator **Policies and procedures:** Non-compliance with Head Office or ManCo Approved Policies. **Business disruption:** Could result in severe business disruption
Medium	**Financial:** >£499k but < £150k potential/actual net profit forgone/cost incurred **Reputational:** Significant damage to the Branch/Bank reputation and/or market value **Regulatory:** Could result in investigation/minor disciplinary regulatory action **Policies and procedures:** Non-compliance with policies and standards **Business disruption:** Could result in some business disruption
Low	**Financial:** < £149k potential/actual net profit forgone/cost incurred **Reputational:** Limited damage to the Branch/Bank reputation and/or market value **Regulatory:** Could result in investigation/adverse comment by the regulator **Policies and procedures:** Non-compliance with policies and standards **Business disruption:** Could result in minor business disruption